Smiths Group plc
Results for the year ended 31 July 2016

Being the best at what we do

www.smiths.com
Disclaimer

This document contains certain statements that are forward-looking statements. They appear in a number of places throughout this document and include statements regarding our intentions, beliefs or current expectations and those of our officers, directors and employees concerning, amongst other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the business we operate. By their nature, these statements involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this document and, unless otherwise required by applicable law, the Company undertakes no obligation to update or revise these forward-looking statements. Nothing in this document should be construed as a profit forecast. The Company and its directors accept no liability to third parties in respect of this document save as would arise under English law. This presentation contains brands that are trademarks and are registered and/or otherwise protected in accordance with applicable law.
Agenda

- **Business Review**
  Andy Reynolds Smith

- **Financial Review**
  Chris O’Shea

- **Strategy Review**
  Andy Reynolds Smith

- **Q&A**
Business Review

Andy Reynolds Smith
Chief Executive
Smiths Group
Full year highlights

- Growth in reported revenue and headline operating profit in four out of five divisions
- Good margin expansion in Smiths Medical, Smiths Detection and Smiths Interconnect
- John Crane margins resilient at 21.9%
- 102% cash conversion
- Morpho Detection acquisition expected to complete in early 2017¹

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**Revenue**  
£2,949m  
-2%*  

**Headline operating profit**  
£510m  
-4%*  

**Headline operating profit margin**  
17.3%  
-40bps*  

**Aftermarket and consumables**  
53%  
-

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¹ subject to regulatory clearances  
* On an underlying basis. Underlying excludes the impact of acquisitions and divestments, and the effects of foreign exchange translation
John Crane
Full year highlights

- Difficult oil and gas market conditions
- 57% of revenue from oil & gas markets
- Aftermarket revenue down 4%
- First-fit revenue down 16%
- Strong cost control actions underway

Revenue: £830m -10%*  
Headline operating profit: £181m -20%*  
Headline operating profit margin: 21.9% -290bps  
Aftermarket: 59% +300bps

* On an underlying basis. Underlying excludes the impact of acquisitions and divestments, and the effects of foreign exchange translation.
Smiths Medical
Full year highlights

• Continued revenue growth, led by Vital Care
  • Emerging market sales increased 10%:
    − China +22%
    − India +21%
• R&D increased from 5% to 6% of revenue, supporting increased product launches and pipeline

<table>
<thead>
<tr>
<th>Revenue</th>
<th>Headline operating profit</th>
<th>Headline operating profit margin</th>
<th>Aftermarket and consumables</th>
</tr>
</thead>
<tbody>
<tr>
<td>£874m</td>
<td>£187m</td>
<td>21.4%</td>
<td>83%</td>
</tr>
<tr>
<td>+1%*</td>
<td>+7%*</td>
<td>+160bps</td>
<td>+100bps</td>
</tr>
</tbody>
</table>

* On an underlying basis. Underlying excludes the impact of acquisitions and divestments, and the effects of foreign exchange translation.
Smiths Detection
Full year highlights

- Strong revenue growth led by Ports & Borders
- Operating profit growth boosted by value engineering and management actions
- R&D 5% of revenue, focused on product launches in transportation and military
- Morpho Detection expected to complete early 2017\(^1\)

<table>
<thead>
<tr>
<th>Revenue</th>
<th>£526m</th>
<th>+9%*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Headline operating profit</td>
<td>£69m</td>
<td>+20%*</td>
</tr>
<tr>
<td>Headline operating profit margin</td>
<td>13.0%</td>
<td>+110bps</td>
</tr>
<tr>
<td>Aftermarket and consumables</td>
<td>37%</td>
<td>+100bps</td>
</tr>
</tbody>
</table>

\(^1\) subject to regulatory clearances
* On an underlying basis. Underlying excludes the impact of acquisitions and divestments, and the effects of foreign exchange translation
Smiths Interconnect
Full year highlights

- Lower revenue reflecting mixed end markets
- Margins rose across our main product lines:
  - productivity improvements
  - procurement savings
- Reorganisation to focus on target markets and customers
- R&D 6% of revenue, focused on higher growth market segments

Revenue
£435m
-1%*

Headline operating profit
£57m
+9%*

Headline operating profit margin
13.1%
+150bps

* On an underlying basis. Underlying excludes the impact of acquisitions and divestments, and the effects of foreign exchange translation.
Diverse end market performance:
- US housing growth
- growing medical demand

Margins softened from Construction product transition and lower industrial volumes

Continuing sales growth in China

**Revenue**

£284m  
+-0%*

**Headline operating profit**

£51m  
-3%*

**Headline operating profit margin**

18.0%  
-50bps

* On an underlying basis. Underlying excludes the impact of acquisitions and divestments, and the effects of foreign exchange translation
Financial Review

Chris O’Shea
Chief Financial Officer
## Robust financial performance

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
<th>Underlying movement</th>
<th>Reported movement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>2,949</td>
<td>2,897</td>
<td>-2%</td>
<td>+2%</td>
</tr>
<tr>
<td>Operating profit</td>
<td>510</td>
<td>511</td>
<td>-4%</td>
<td>-</td>
</tr>
<tr>
<td>Operating margin</td>
<td>17.3%</td>
<td>17.6%</td>
<td>-40 bps</td>
<td>-30 bps</td>
</tr>
<tr>
<td>Headline free cash flow</td>
<td>400</td>
<td>339</td>
<td></td>
<td>+18%</td>
</tr>
<tr>
<td>ROCE</td>
<td>15.3%</td>
<td>16.0%</td>
<td>-70 bps</td>
<td></td>
</tr>
<tr>
<td>Headline EPS</td>
<td>85.2p</td>
<td>86.1p</td>
<td>-1%</td>
<td></td>
</tr>
<tr>
<td>Dividend per share</td>
<td>42.00p</td>
<td>41.00p</td>
<td></td>
<td>+2.4%</td>
</tr>
</tbody>
</table>

1 Underlying excludes the impact of acquisitions and divestments, and the effects of foreign exchange translation.
Group revenue\(^1\) fell 2\% primarily due to tough end market conditions in John Crane...

<table>
<thead>
<tr>
<th></th>
<th>2015 revenue</th>
<th>Currency translation and A&amp;D</th>
<th>2015 revenue underlying</th>
<th>2016 Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>reported</td>
<td></td>
<td>underlying</td>
<td></td>
</tr>
<tr>
<td>2015 revenue</td>
<td>2,897</td>
<td></td>
<td>2,994</td>
<td>2,949</td>
</tr>
<tr>
<td>Underlying revenue growth</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>John Crane</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medical</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Detection</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interconnect</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Flex-Tek</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Group</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td></td>
<td>(87)</td>
<td></td>
<td>6</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>43</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(6)</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>(1)</td>
<td></td>
</tr>
</tbody>
</table>

\(^1\) Revenue on an underlying basis. Underlying excludes the impact of acquisitions and divestments, and the effects of foreign exchange translation.
...driving a 4% decline in profit\(^1\)

<table>
<thead>
<tr>
<th></th>
<th>2015 Operating profit reported</th>
<th>Currency translation and A&amp;D</th>
<th>2015 operating profit underlying</th>
<th>John Crane</th>
<th>Medical</th>
<th>Detection</th>
<th>Interconnect</th>
<th>Flex-Tek</th>
<th>Central costs</th>
<th>2016 Operating profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>£m</td>
<td>511</td>
<td>530</td>
<td>(47)</td>
<td>(19)</td>
<td>(13)</td>
<td>(12)</td>
<td>(5)</td>
<td>(2)</td>
<td>(1)</td>
<td>510</td>
</tr>
<tr>
<td>Operating margin</td>
<td>FY16</td>
<td>FY15</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>John Crane</td>
<td>21.9%</td>
<td>24.8%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medical</td>
<td>21.4%</td>
<td>19.8%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Detection</td>
<td>13.0%</td>
<td>11.9%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interconnect</td>
<td>13.1%</td>
<td>11.6%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Flex-Tek</td>
<td>18.0%</td>
<td>18.5%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Group margin</td>
<td>17.3%</td>
<td>17.6%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1 Profit on an underlying basis.
Underlying excludes the impact of acquisitions and divestments, and the effects of foreign exchange translation.
Headline free cash flow increased 18%...

<table>
<thead>
<tr>
<th>(£m)</th>
<th>2016</th>
<th>2015</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Headline operating profit</td>
<td>510</td>
<td>511</td>
<td></td>
</tr>
<tr>
<td>Capex</td>
<td>(108)</td>
<td>(95 )</td>
<td>+14%</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>96</td>
<td>87</td>
<td></td>
</tr>
<tr>
<td>Working capital</td>
<td>9</td>
<td>(38)</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>13</td>
<td>19</td>
<td></td>
</tr>
<tr>
<td>Headline operating cash flow</td>
<td>520</td>
<td>484</td>
<td>+7%</td>
</tr>
<tr>
<td>Operating cash conversion</td>
<td>102%</td>
<td>95%</td>
<td></td>
</tr>
<tr>
<td>Interest</td>
<td>(58)</td>
<td>(54)</td>
<td></td>
</tr>
<tr>
<td>Taxation</td>
<td>(62)</td>
<td>(91)</td>
<td></td>
</tr>
<tr>
<td>Headline free cash flow</td>
<td>400</td>
<td>339</td>
<td>+18%</td>
</tr>
</tbody>
</table>
...which drove a £23m underlying reduction in net debt
### Non-headline items in operating profit

<table>
<thead>
<tr>
<th>(£m)</th>
<th>2016</th>
<th>2015</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Headline operating profit</strong></td>
<td>510</td>
<td>511</td>
<td>-</td>
</tr>
<tr>
<td>Fuel For Growth</td>
<td>(37)</td>
<td>(38)</td>
<td></td>
</tr>
<tr>
<td>Legacy liabilities - litigation</td>
<td>(18)</td>
<td>(27)</td>
<td></td>
</tr>
<tr>
<td>Retirement benefits</td>
<td>(16)</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>Impairment</td>
<td>(31)</td>
<td>(27)</td>
<td></td>
</tr>
<tr>
<td>Amortisation of acquired intangibles</td>
<td>(15)</td>
<td>(33)</td>
<td></td>
</tr>
<tr>
<td>Acquisition and disposal costs</td>
<td>(6)</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td><strong>Total non-headline items</strong></td>
<td>(123)</td>
<td>(117)</td>
<td></td>
</tr>
<tr>
<td><strong>Statutory operating profit</strong></td>
<td>387</td>
<td>394</td>
<td>-2%</td>
</tr>
</tbody>
</table>
The Group has a good range of debt maturities

Weighted average debt facilities maturity
4.5 years

Weighted average interest rate\(^1\)
3.7%

Credit ratings
BBB+/Baa2 stable

Interest rate exposure
Fixed: 47%
Floating: 53%

- **EUR 300m** 4.125%
- **USD 300m** 4.125%
- **USD 175m** 7.37%
- **USD 250m** 7.20%
- **USD 400m** 3.625%
- **EUR 600m** 1.25%

\(^1\) Weighted average interest rate of gross debt
Substantial progress made on pensions

Funding exercise concluded, contributions materially lower
• Triennial valuations agreed on SIPS and TIGPS schemes
• US buyout complete resulting in transfer of $527m of liabilities
• Certainty of funding over next three years, boost to free cash flow
• Pension assets substantially de-risked, deficits lowered

From this last year
2015 Asset Portfolio (£4.0bn)
64% in matching assets

To this now
2016 Asset Portfolio (£4.3bn)
91% in matching assets
Net pension position improved from a £108m deficit to a surplus of £80m

Contributions to Funded Schemes
- Cash
  - TIGPS Scheme: £11m
  - SIPS Scheme: £32m
  - Other UK Schemes: £4m
  - Total UK: £47m
- US Schemes: £68m
- Other Schemes: £2m
- Total Direct Cash: £117m

Non Cash
- Escrow GILTS to SIPS: £152m

Total: £269m

Contributions to Unfunded Schemes

Total Costs: £6m
Current foreign exchange rates could provide a significant tailwind in reported profits

### 2016 Revenue at Average and Year End FX Rates

- **2016 Revenue actual fx**: £2,949
- **2016 Revenue period end fx**: £3,263

### 2016 Operating Profit at Average and Year End FX Rates

- **Margin**: 17.3%
- **2016 FX rates**
  - USD: Average 1.46, Closing 1.32
  - EUR: Average 1.32, Closing 1.19
  - JPY: Average 168.83, Closing 135.40

### 2016 headline operating profit

- **£m**
  - **2016 headline operating profit actual fx**: £510
  - **2016 headline operating profit period end fx**: £561
  - **Margin**: 17.2%

### Revenue, £

- **£m**
  - **Revenue, Average**: USD 1,598, EUR 457, JPY 93
  - **Revenue, Closing**: USD 1,768, EUR 508, JPY 117
Our financial strategy is straightforward and...

Strong financial framework

- Maintain a strong investment grade credit rating
- Invest in opportunities which create value
- Measured balance sheet management
- Active portfolio management
- Maintain a competitive tax rate
- Robust enterprise risk management

Invest wisely and manage the investments well
... is easily translated into day-to-day actions...

- **Intelligent cost control**  
  Reduce costs to invest in growth generating activities

- **Use assets more efficiently**  
  Opportunity to improve utilisation

- **Optimal working capital investment**  
  Reduce inventory and invest cash in growth

- **Relentless focus on cash generation**  
  Cash as a key measure of underlying performance

- **Disciplined capital allocation**  
  Deploy capital to maximise risk-adjusted returns

... is easily translated into day-to-day actions...
...and is driving further progress in focusing the portfolio

Sale of John Crane Artificial Lift business
- $39.5m consideration
- Accretive to Group EPS
- Removes John Crane margin dilution

2016 results
- Revenue: £36m, down £22m versus 2015
- Loss: £7m, £6m more than 2015

John Crane 2016 reported performance

Revenue, £m
- Reported: 830
- Proforma: 794
- Margin: 21.9%

Profit, £m
- Reported: 181
- Proforma: 188
- Margin: 23.7%
Outlook for 2017

- Broad continuation of 2016 trends
- Performance weighted to H2
- Strong cash conversion
- Foreign exchange tailwind
- Completion of acquisition of Morpho¹

¹ Subject to regulatory clearances
# Medium-term guidance

<table>
<thead>
<tr>
<th></th>
<th>Underlying growth</th>
<th>Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>John Crane</td>
<td>Growth above the market</td>
<td>20%+</td>
</tr>
<tr>
<td>Smiths Medical</td>
<td>Growth above the market</td>
<td>20%+</td>
</tr>
<tr>
<td>Smiths Detection</td>
<td></td>
<td>mid-teens+</td>
</tr>
<tr>
<td>Smiths Interconnect</td>
<td></td>
<td>mid-teens+</td>
</tr>
<tr>
<td>Flex-Tek</td>
<td></td>
<td>mid-teens+</td>
</tr>
</tbody>
</table>
Strategy Review

Andy Reynolds Smith
Chief Executive
Our vision and strategic priorities

One of the world’s leading technology companies

- Outperforming our chosen markets
- Achieving world-class competitiveness
- Strong financial framework
The majority of our businesses are well positioned

- Market attractiveness
  - Size
  - Growth
  - Segment profitability
  - Competitor concentration

- Competitive position
  - Relative market share
  - Relative profitability
  - Relative growth

% = of Smiths Group revenues
Strategy in action

→ Outperforming our chosen markets

Achieving world-class competitiveness

A Smiths business
The growth framework

- Focus on growing market segments
- Are we in the right geographies?
- Do we serve the right customers?
- Increased aftermarket
- Increase value of content with each customer
- High competitive differentiation

Market leadership = Top 3 market position
We have a strong and broad portfolio

- Respected brands with good margins
- Strong base to build a more focused and competitive business
- Move to higher tech, higher growth, synergistic markets
- Accelerate ‘Pump-to-Patient’ strategy

Medical revenue 2016

Vascular Access
Infusion Systems
Vital Care
Specialty Products

Pump-to-Patient market

Smiths current market
Smiths potential market

Outperforming our chosen markets
Strategy in action

Outperforming our chosen markets

Achieving world-class competitiveness

A Smiths business
Smiths driven by Excellence System

- Customer
- People
- Technology
- Programme
- Production
- Supply Chain
Focus on customers seeking sophisticated technology solutions
More concentrated sales activities and resources

Stronger customer satisfaction
Improved sales force effectiveness
Technology Excellence – digital transformation

- 250 software engineers today
- Develop Group-wide capabilities
- Key strengths in diagnostics, security algorithms, and software libraries
- Moving to end-to-end solutions
- $i^3$ innovation forum established to create a culture of innovation

New Group Innovation Fund, in addition to current R&D
Objective

- Make assembly processes more effective for generators and scanners
- Consolidate manufacturing on a single site

What did we do?

- Redesigned assembly process
- Redesigned production line layout
- Moved to one-piece flow line
- Move from fixed order material supply to ‘just in time’ system

- 40% generator operational footprint reduction
- 57% net manufacturing lead time reduction for high volume products
- Lower WIP, lower costs
- 13% productivity improvement
Supply chain Excellence

Reducing lead times and improving the flow and efficiency of the business

Sales & operations planning

<table>
<thead>
<tr>
<th>Sales &amp; operations planning</th>
<th>Standard semiconductor test cable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value added time 0.5 week</td>
<td>Plan</td>
</tr>
<tr>
<td></td>
<td>Production</td>
</tr>
<tr>
<td></td>
<td>Order materials</td>
</tr>
<tr>
<td></td>
<td>Produce Parts</td>
</tr>
<tr>
<td></td>
<td>Ship parts</td>
</tr>
</tbody>
</table>

14 WEEKS

Order shipped, invoice raised

Plan

Production

Order materials

Produce Parts

Ship parts

Value added time 0.5 week
Strategy in action

Outperforming our chosen markets

Achieving world-class competitiveness

→ A Smiths business
Characteristics of a Smiths business

- Technological differentiation
- Positioned in growing markets
- Increasing digitisation
- Sustainably competitive and asset light
- High proportion of aftermarket and recurring revenues

More focused, better businesses in Top 3 leadership positions
Creating one of the world’s leading technology companies

- Growth and Returns
- New Product Innovation vitality
- Improve attractive market focus
- Improve competitive position
- In-depth review of markets and Smiths competitiveness

In-depth review of markets and Smiths competitiveness
Being the best at what we do
## Reconciliation of operating profit

<table>
<thead>
<tr>
<th>Description</th>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Headline Operating Profit</strong></td>
<td>510</td>
</tr>
<tr>
<td><strong>Restructuring programmes</strong></td>
<td>(37)</td>
</tr>
<tr>
<td><strong>Litigation provision: John Crane, Inc.</strong></td>
<td>(23)</td>
</tr>
<tr>
<td><strong>Litigation provision: Titeflex Corporation</strong></td>
<td>(11)</td>
</tr>
<tr>
<td><strong>Changes to post-retirement benefits</strong></td>
<td>(9)</td>
</tr>
<tr>
<td><strong>Impairments</strong></td>
<td>(31)</td>
</tr>
<tr>
<td><strong>Acquisition and disposals</strong></td>
<td>(5)</td>
</tr>
<tr>
<td><strong>Cost recovery for John Crane, Inc. litigation</strong></td>
<td>16</td>
</tr>
<tr>
<td><strong>Amortisation of acquired intangible assets</strong></td>
<td>(15)</td>
</tr>
<tr>
<td><strong>Legacy retirement benefits administration</strong></td>
<td>(8)</td>
</tr>
<tr>
<td><strong>Statutory operating profit</strong></td>
<td>387</td>
</tr>
</tbody>
</table>